Market Matters Healthcare August 2007

## Top Seven Issues for Healthcare Executives



By Sandy Lutz, Director, PricewaterhouseCoopers Health Research Institute

We all know that our health system is ailing. Yet chaos often presents opportunity. Where should healthcare executives focus first? The PricewaterhouseCoopers Health Research Institute has identified the following seven issues as most critical for health executive focus. We've also identified some possible action items for your organization, in the form of questions, following some of the issues.

#### Issue #1: State Initiatives

In the presence of federal gridlock, states are taking the lead on a number of divisive issues. Massachusetts, Vermont, and Minnesota have all crafted regional solutions for universal healthcare coverage. The real test could come in Louisiana, which is debating how to reconfigure its health system and cover the uninsured post-Katrina. California is making a \$3 billion investment in stem cell research, prompting similar technology-supportive laws in nearly a dozen other states. And, laws regulating gifts and other direct marketing by pharmaceutical companies to physicians have been passed in six states and proposed in 15 other states.

Do you know your state's position on pharmaceutical company gifts to physicians, and have you educated your physicians and other medical staff?

#### Issue#2: Transparency

The federal government recently issued an executive order requiring Medicare, Medicaid, the Defense Department, Veterans Affairs, and the Office of Personnel Management to adopt programs that address interoperability standards, quality measurements, price transparency for public use, and incentives promoting quality and efficiency in healthcare. These organizations account for nearly 40% of the nation's healthcare purchases and thus will have a significant influence on how transparency is implemented in the rest of the healthcare industry.

Already 32 states require providers and payers to disclose charge information for certain procedures; six others have voluntary programs. If passed, the federal Health Care Price Transparency Act of 2006 would require enhanced visibility on pricing via hospital web sites, government reports, or upon request. Medicare will soon expand hospital reporting requirements from 10 to 21 core measures, and extend reporting requirements to physicians as well.

- Do you know your state's requirements related to disclosing charge information?
- Your organization is going to have to disclose this information anyway, so why not use the opportunity to your advantage? Engage Marketing now.

## Issue #3: Technology

The formation of a digital backbone is continuing slowly with new governmental standards, a focus on patient and provider identifiers, and a shift towards electronic health records (EHRs). So far, fewer than one in 10 physicians is using a fully operational EHR, only 24.9% of physicians are using EHRs with basic functionality, and as few as 5% of hospitals have fully functioning computerized physician order entry systems. With some research indicating that healthcare providers will spend close to \$25 billion on clinical IT within the next two years, Federal funds will only go so far. At present, 38 states are participating in statewide or community discussions, and 21 are leading the coordination of efforts in their states.

#### Issue #4: Consumerism

With only 3 million Americans currently participating in consumer-directed health plans (versus 240 million in other private health plans), many industry observers expect enrollment in these new benefit plans to increase. However, early results are mixed. Some consumers report high satisfaction and





Market Matters Healthcare August 2007

# **Top Seven Issues** (Continued)

lower costs, while others complain of delays in care. Does early evidence of success reflect the ability to effectively enroll people in all age groups, or simply the "cherry picking" of relatively young, healthy individuals? The 2006 PwC Health Institute Consumer Healthcare Survey indicated that, of all methods offered to reduce the cost of healthcare, consumers were least supportive of paying more out of pocket.

#### Issue #5: Drug prices

Generic drugs pose one of the biggest challenges for large pharmaceutical companies. With 42 blockbuster drugs (representing \$82 billion in sales) losing their patents in 2007, the pharmaceutical industry faces a significant loss of market share to generics. Generics currently account for more than 50% of all prescriptions written, and this figure could increase as Medicare beneficiaries become more sensitive to drug prices through their Part D drug plans. The pharmaceutical companies have responded with innovative pricing and marketing strategies, including rebates to reduce the net price of brand name drugs, marketing their own generic products, and selling "authorized generics" - brand name drugs priced as generics.

Has your organization worked with your prescribing physicians to understand the possibilities/pitfalls related to increasing the use of generics? What are the financial opportunities versus the clinical risks?

### Issue #6: Obesity as the new smoking

When smoking was raised as a costly public health issue, the government started with education, then moved to regulation. The percentage of U.S. smokers declined from 30% to 22% over a 20-year period. Obesity is projected to lead to 400,000 deaths annually, and individuals who are classified as obese have 30% to 50% more chronic medical problems than those who smoke or drink heavily.

Employers, health plans, and healthcare providers are already offering a whole menu of weight loss programs and incentives.
Consumers are less supportive of financial

incentives that target obesity, which is no surprise, since two-thirds of the U.S. population is overweight. Nevertheless, the war on obesity will gain momentum, and it represents a financial opportunity for healthcare organizations.

Is it time to formulate a strategy for your new obesity "product line"?

#### Issue #7: Small is big

Despite its nearly trillion-dollar girth, the healthcare service business continues to behave like a cottage industry. Consumerism has prompted clinicians and large retailers in several large U.S. markets to create retail medicine outlets. Now accepting insurance, the "minuteclinics" continue to gain popularity with consumers.

Surgery centers and small specialty hospitals continue to be built. About 130 specialty hospitals are already in operation, and more are under construction, predominantly in the South and the West. While the specialty hospital ban is off, new reimbursement rules could level the playing field for larger traditional hospitals. Outpatient specialty services and specialty hospitals are required to disclose physician ownership and compensation arrangements with CMS. Facilities permitting, they are also required to accept emergency patients regardless of their ability to pay.

In 2006, the biotechnology sector attracted the highest amount of funding from venture capitalists since 2002. Investors see innovations in life sciences as a solid foundation for return on investment. For this reason, private equity investors will be an important component of funding for the next generation of services and treatments, challenging larger competitors that lack market agility.

Sandy Lutz is a Director at the PricewaterhouseCoopers Health Research Institute.

August 2007

